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ABSTRACT

This module, one of six on teaching consumer matters to low-income groups, focuses on the appropriate uses of credit. It provides basic information about credit, particularly as it applies to low-income people, and offers some techniques which help the instructor present the information to these clients. Topics include a definition of credit, why credit should be used (appropriate and inappropriate uses, advantages and disadvantages), establishing credit, types of credit plans, costs of credit, sources of credit, and problems with credit. The module also lists free-loan materials available from the Office of Consumer Affairs and phone numbers for sources of related information and assistance. (CT)

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How Do You Rate?

Teaching Low-Income Consumers the Appropriate Uses of Credit

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I. INTRODUCTION

Teaching low-income consumers about credit involves helping them understand the appropriate uses of credit, helping them find the least expensive available source of credit, and helping them understand any applicable laws about credit.

Whether or not to use credit is a difficult question for a low-income consumer to answer. The use of credit usually involves finance charges which increase the total cost of the merchandise. However, some necessities for which a person with a middle or a high income could save fairly easily cost more than a low-income person is able to pay in cash. The few hundred dollars needed to purchase a refrigerator or an oven may be impossible for a poor person to save. Yet, although a small monthly payment for such an appliance may be manageable, the total financed cost of the appliance may be two or three times the original price. And, too often, the merchandise available to low-income consumers is of such poor quality that it breaks down or wears out long before it is paid for.

The purpose of this booklet is to provide you with some basic information about credit, particularly as it applies to low-income people, and to offer some techniques which will help you present the information to low-income clients. Methods for teaching groups of clients will be stressed, because working with groups of people can be one of the most effective ways of helping clients learn about credit. In addition, many of you who work with low-income consumers may not have the time to work extensively with individuals. Indeed, if you work with a client who is in serious trouble because of excessive use of credit, it may be necessary to refer the client to one of the agencies listed on pages 31 or 32 of this booklet.

II. WHAT IS CREDIT?

Credit is a means by which people obtain money, or the use of money, in order that they can buy goods or services, based on their promise to repay the lender at a later date. Ask a group of consumers for a definition of credit, and the answer is often "buy now, pay later".

In its broadest definition, consumer credit can take many forms. Most people are familiar with installment loans and credit cards. But other forms of credit include utility bills which arrive at the end of the month, medical bills which arrive well after care has been given, and even payments for a newspaper subscription at the end of the week. In all of these situations, the services or goods have been received before billing takes place.

Credit is usually characterized by finance charges, that is, the fees that the consumer pays for the use of the money or the availability of the services. But some people who give credit do not charge a fee. There is often no finance charge on a department store charge account if the balance is paid by the end of the month, and many doctors and dentists allow their patients to pay their debts in monthly payments with no charge.

Another way of defining credit is as the present use of future income. The consumer anticipates the availability of income to pay back a loan, and based on this apparent ability and willingness to repay the loan, the lending institution grants credit.

To teach low-income consumers about credit, try working with a group of ten to twelve people. Hold a two- or three-hour discussion group, if possible, or schedule several shorter meetings. Begin the discussion by asking the group to define credit. Write the responses on a large blackboard, and encourage as many different answers as you can. Be sure to highlight the main aspects of credit: credit involves the use of someone else's money to purchase goods or services, based on the promise to repay that money in the future, and credit usually costs money to use.

III. WHY USE CREDIT?

The next question to ask the group is: "why do people use credit?" Again, write the answers on the blackboard. Here are some common responses:

to take advantage of sales

to purchase an expensive necessity for which it is very difficult to save, such as an appliance or a car

to handle emergencies

to improve cash flow

to establish credit for the future

There are many good reasons for using credit. There are also situations in which some people do obtain credit, but which are probably not prudent uses of borrowing power.

A. Appropriate Uses of Credit

There are many varied reasons for which people need credit which are considered economically sound. Among them are:

1. To Make a Major Purchase. Most Americans do not have sufficient cash on hand to purchase a home or an automobile. For many people, and especially for low-income people, it is necessary to use credit to purchase furniture and appliances.

2. To Meet an Emergency. If you do not have cash saved to cover medical costs for an unexpected illness, or to pay bills if the breadwinner is suddenly out of work, it may be appropriate to borrow money to see you through the crisis.

3. To Take Advantage of an Exceptional Sale. Some judgement is required in this situation. If you know that you will need a new winter coat, and you find a coat that you like at half price, it is a good investment to buy the coat on credit if you do not have the cash. However, you should *not* run up a high balance charging pretty clothes that you like, but do not absolutely need, just because they are on sale. Be sure that the cost of borrowing the money to buy the sale item will not increase the price to more than what the item would cost if it were not on sale.

4. To Finance an Education. As a general rule, financing a college or graduate level education is quite sound economically. Even if the loans will take ten years to repay, a higher education usually gives an individual a substantially higher earning power than a high school degree, so the cost of the education will be more than offset by the increased earnings. For low-income people, financing an education may mean finding a way to take a course in preparation for a high school equivalency exam, taking a class which will improve job skills, or attending a vocational school. If a person can manage to finance a course or program which will ultimately raise his or her earning power, the investment is probably good. Caution anyone considering taking a course or attending a trade school to investigate the school's credentials thoroughly before signing any contracts, though. There are some mail-order schools and other programs which are fraudulent, charging high fees without offering anything of true educational value. Ask the school for names of graduates who will talk with prospective students about the program and their subsequent success with jobs. Talk with potential employers to find out if they value the courses or programs offered at the school. Determine whether or not the school is accredited, and if it is, find out who has granted the accreditation and what that accreditation means.

There are some general rules which apply any time you are considering using credit. You should always borrow money at the lowest interest rate you can obtain. You should not buy an item on credit if the time to repay the loan is longer than the life of the article. You should try to keep your total monthly payments on credit accounts (excluding the mortgage on your home) to one-tenth of your monthly take-home pay. And you should avoid taking out a second installment loan before the first one is paid.

B. Inappropriate Uses of Credit

There are situations in which you may be tempted to use credit, but in which borrowing money is ill-advised. For example:

1. To Pay for a Product Which Will Wear Out Before the Loan is Repaid. It is inappropriate to use a ten-year loan to buy a new car, for example.

2. To Gamble on an Extremely Risky Business Deal. If the deal fails, you may still have months or years of payments to make.

3. If You Have Little Cash Reserve. You are asking for financial trouble if you borrow large amounts of money without any cash reserve to cover emergencies.

4. In Anticipation of a Salary Increase or a Windfall. Wait until the expected money is cash in your hand before you spend it or commit it to a loan repayment.

5. To Pay Routine Bills. If you have to borrow money to pay your routine bills, you are in serious financial trouble, and should contact a consumer credit counseling agency.

C. Advantages of Credit

There are many advantages of credit which you should discuss in your meeting with your low-income clients. The advantages of using credit are, of course, closely

tied to the reasons people use credit, discussed earlier. Here are some specific advantages of using credit:

1. Using Credit Carefully Can Save You Money. In addition to allowing you to take advantage of sale items, paying for a purchase over time during a period of high inflation allows you to pay for the item with inflated dollars, effectively reducing the amount the item costs.

2. Using Credit Can Allow You to Keep Your Savings or Investments Intact. Be sure that the finance charge for the credit is not greater than the earnings from the investment.

3. Using Credit Gives You the Use of an Item While You are Paying for It. Most of us would find it difficult, if not impossible, to save enough money to buy a car or a home before we purchased it.

4. Using Credit Allows You to Make a Financial Investment Which You Might Not be Able to Make Otherwise. For example, using credit can help you start a business, buy some stock, or purchase real estate. Be certain that the investment is sound, and not a substantial risk.

5. Using Credit Helps You Establish Credit. This apparent double-talk will be discussed in detail below, in "Establishing Credit". Most lenders require some indication that you are credit-worthy, and usually a history of paying back loans as scheduled weighs strongly in your favor, and helps you establish credit.

D. Disadvantages of Credit

When you ask your group of clients to discuss the

disadvantages of credit, you will probably elicit nervous and genuine laughter, followed by some of these responses:

1. Overextension. For low-income people in particular, it is easy to accumulate several seemingly small debts without realizing the total monthly financial commitment. Five dollars a week for a television, seven dollars a week for a refrigerator, and four dollars a week for a couch may not sound like much, but a commitment of sixty-four dollars a month, particularly to a welfare recipient, is substantial.

2. Paying Excessive Prices for Merchandise. Even if your clients can manage the "small" monthly installment payments to which they commit themselves, it may be that the total amount they end up paying for the merchandise is far more than the product is actually worth. For example, the seven dollar per week charge for a refrigerator described above comes to well over seven hundred dollars if the payments last two years.

3. Paying a Large Amount of Money for Interest and a Small Amount for the Actual Goods. Implicit in the above examples is that low-income consumers typically end up using a lot of their money to pay the interest on installment loans. Over a long period of time, this practice means that more money is used to pay interest on loans than for the actual goods themselves, an unwise credit practice.

4. Using Credit Ties Up Future Income. Taking out a loan commits your future income to paying that loan. If future income is uncertain, repaying the loan may be difficult. Using credit decreases financial flexibility for the future by obligating income.

IV. ESTABLISHING CREDIT

In order to obtain credit easily, it is important to establish credit. Even people who do not use credit routinely would be well-advised to establish a good credit history as a protection against financial emergencies.

A. Credit Worthiness

Establishing your credit worthiness is necessary in order for you to obtain most major loans. Credit worthiness is evaluated by your history of financial responsibility, your financial resources, your earning power, and your existing financial obligations. If, for example, you have repaid loans in the past on schedule, that is a positive indication of your financial responsibility. Your resources are evaluated by your savings, equity, and other assets. Your earning power is an evaluation of your present and future incomes.

A creditor, then, will be interested in both your *ability* and your *willingness* to repay a loan. The fact that you have managed your money and your credit well in the past is a good sign of your credit worthiness.

B. How To Establish Credit

Since a good credit history affects your future ability to obtain credit, where can you start to build your reputation as a reliable money manager? The first step is to open a checking and a savings account. Using bank accounts well indicates that you handle your money well. If you make a regular deposit in a savings account, you are indicating to potential creditors that you will also repay them regularly.

The second step in establishing a good credit history is obtaining a charge account from a retail store. Go to a store from which you normally make purchases in cash and apply for a credit card. Use the card instead of cash for your regular purchases, and pay your monthly bill promptly. Usually there is

no finance charge for bills paid within the monthly billing cycle.

The third step in building a strong credit history is applying for a bank credit card. Using a bank credit card, you can charge purchases in many different stores. There is no fee for using a bank credit card if the purchases are paid for in the first month. The interest rate is usually 1½% per month on the unpaid balance after the first month. Bank credit cards have a limit on the amount that you can charge, based on your income and credit history.

The fourth step in establishing a good record is taking out a small loan. After you have followed the first three steps above, you will probably be able to borrow a few hundred dollars. If you pay back that loan conscientiously, you are proving that you are a good credit risk, and will probably be able to obtain a larger loan in the future.

C. Credit Ratings

Your credit rating is an evaluation of your ability to handle credit well, based on your credit history. It is used by potential creditors such as banks, retail stores, or other businesses to which you have applied for credit.

1. Credit Bureaus. Most lenders do not have the ability to investigate the credit history of all their credit applicants. Therefore, consumer reporting agencies which obtain, compile, and report credit information about individuals have been formed. These *credit bureaus* maintain records which include your name, address, employer, income, and bill-paying record. They may also include information about any legal action which has been taken against you, particularly if it affects your ability to meet financial obligations. Credit bureaus gather this information about consumers from a variety of sources, and distribute it to potential lenders for a fee. This information is your *credit history*, and when a potential lender receives this history from a credit bureau, it is referred to as a *credit report*.

2. The Fair Credit Reporting Act. In 1971, Congress passed the Fair Credit Reporting Act to protect consumers against the use of inaccurate or obsolete information, and to insure that consumer reporting agencies carry out their business fairly and confidentially. Under this law, if you are denied credit, a lending institution must give you the name and address of the credit bureau that supplied them information which led them to deny you credit. Within thirty days of being denied credit, you may visit that credit bureau and review your credit history with an interviewer, free of charge. If you have not been denied credit, or if more than thirty days have passed since the denial of credit, the credit bureau may charge a small fee for the interview.

When you review your credit history, if there is any item which you question, the credit bureau will recheck it. If the item is found to be incorrect, or cannot be verified, it will be deleted from your record, and you may ask the credit bureau to notify previous recipients of your credit history of that fact. If this recheck does not settle the dispute to your satisfaction, you may file a statement of your version of the matter, which must be included with any future reports.

When you work with low-income consumers, talk extensively about credit reports and the Fair Credit Reporting Act. Try to arrange with a local credit bureau to take a group of consumers on a tour of the bureau. Also, encourage your clients to arrange to discuss their own credit histories with the credit bureau. Remember, if a person has never used credit, he or she will probably not have information on file with the credit bureau. If the person wants the opportunity to use credit in the future, he or she should take the steps described above to establish a good credit rating.

3. The Equal Credit Opportunity Act. Another piece of legislation which you should review with your clients is the Equal Credit Opportunity Act. This Act prohibits discrimination in granting credit based on sex, marital status, age, race, national origin, or the source of your income. In other words, in considering an application for

credit, a potential lender may consider relevant factors, such as your ability and willingness to repay the loan, but may not consider irrelevant factors, such as your sex or race.

In examining your resources, a potential lender must consider all reliable sources of income, even if the income comes from public assistance, retirement, part-time employment, or child support, if you choose to report them. All applicants must be notified within thirty days of applying for credit whether the credit is granted or denied. If you are denied credit, the creditor must give a specific reason for the denial, or must tell you that you have sixty days in which to request a written explanation.

The Equal Credit Opportunity Act is especially important to women. The Act requires that all joint accounts held by a married couple be reported in both people's names, thereby allowing a woman to establish a credit history. The Act also prohibits creditors from asking a person's marital status on an individual, unsecured loan. Women must be given the same consideration as men in their applications for credit.

Remember, of course, that insufficient income *is* a reasonable reason for denying credit. Therefore, if a welfare client or a divorced woman living on a meager child support allowance wants credit, she may have trouble obtaining it because her income is low. If you work with a client who feels that she has been denied credit because of her race, sex, source of income, or marital status, you can help her write to the Federal Trade Commission to file a complaint. Several offices that handle problems with credit are listed on pages 31 and 32 of this booklet.

4. Improving a Bad Credit Rating. Suppose that you have had some problems with credit in the past, and as a result you have a bad credit rating. What can you do to improve this rating so that you will be able to use credit in the future?

The first step is to pay off any old debts

as quickly as you can, without, of course, putting your other finances in jeopardy. This step may take several months, or even years if you are seriously in debt, and may require the assistance of a credit counselor. Do not take on any additional debts for any purpose until the old ones are resolved.

The second step is to ask your creditors to report to the credit bureau when your debts have been resolved. This will indicate that, although you had some problems, you were able to resolve them satisfactorily.

The third step is to start as if you had never had credit, as described above in "How to Establish Credit". Use a charge account or bank credit card carefully, or take out and repay a small loan. Be extremely careful, though, that you do not repeat the errors that resulted in your poor credit rating the first time. Keep careful account of all outstanding debts, and limit your total monthly obligations for credit (excluding a mortgage payment on a house) to ten percent of your take-home pay. If you use credit carefully, you can re-establish a good credit history, and your previous errors will eventually be forgiven.

V. TYPES OF CREDIT PLANS

A. Sales and Cash Credit

Most credit transactions can be classified as either sales or cash credit. Sales credit refers to the purchase of goods or services. You use sales credit when you finance a car, charge merchandise at a department store, pay a utility bill, or use a bank credit card. Sales credit is credit which you receive in connection with buying goods or services.

Cash credit is credit in which you actually receive money. You can obtain cash credit through some bank credit cards, from certain banks, and from other lending institutions.

B. Methods of Repayment

Loans can be paid back in several different ways. The method of repayment should be determined at the time the terms of the credit transaction are finalized.

1. Single Payment Credit. Single payment credit, or non-installment credit, is credit which is paid in one sum. Most utility bills and bills for professional services are paid in a single payment. Advise your low-income clients to budget the necessary amount each month to cover regular utility bills, and to budget an amount to pay any doctor bills which may occur.

A single payment cash loan is a loan which must be paid in full at a designated date. The amount of the payment will be equal to the amount of money borrowed plus any interest. If you work with a client who borrows cash to be repaid in a single payment, be sure that the client will be prepared to pay back the loan at the end of the time period. If the loan is for six months, you might encourage the client to set aside one-sixth of the amount to be repaid each month until the

repayment is due. Do not allow a client to be lulled into a false sense of security, thinking that it will be easy to find the total sum in six months.

2. Installment or Closed-End Plans. Installment loans are most commonly used for the purchase of major items, such as appliances, cars, or homes. An installment loan is paid back in a series of weekly or monthly payments for a specified period of several months or years. The payments are usually equal in amount, and each payment includes part of the cost of the interest on the loan. Usually the person providing the loan maintains title to the merchandise until the loan is repaid. For example, if you buy a car and finance it through the dealer, the dealer will keep the title until you have paid for the car. If you finance the car through a bank, the bank will hold the title.

3. Open-End or Revolving Charge Accounts. Open-end accounts are credit plans in which you have a set limit on the total cost of the purchases you can charge. You may make repeated charges on your account up to that limit. Usually you receive a monthly statement, which you may pay in part or in full. Generally there is no interest charged on a revolving charge account if you pay the account in full each month. If you pay only the minimum required amount, you will probably be charged interest on the unpaid balance at a rate of 1½% per month, which is the maximum interest allowed for open-end plans.

4. Regular or 30-Day Accounts. Regular charge accounts usually must be paid in full within ten to thirty days of the billing date. Using this type of account is essentially like using cash with a deferred payment. There is generally no finance charge if the bill is paid in full within the specified time period. Regular charge accounts provide a convenience to people who shop frequently at a specific store.

Some regular charge accounts include the provision that they will become revolving charge accounts automatically if the bill is not paid in full in the specified time period. Thus, a consumer using a charge account may have to pay interest if a regular charge account is not paid on time.

VI. THE COST OF CREDIT

An important characteristic of credit is that it generally costs money. When you use credit, you pay for the privilege of having someone else's money. There may be several different charges involved if you want to borrow another person's money.

A. Interest

Most credit transactions involve an interest charge. The interest is usually expressed as a percentage of the total amount of money you borrow, and can be calculated in several different ways. A discussion of methods for calculating interest is beyond the scope of this booklet. What is more important for low-income consumers is to examine both the annual percentage rate of interest, or A.P.R., and the total dollar cost of the loan. Both of these will be discussed in detail below, under "The Truth in Lending Act".

The amount of interest charged by a lending institution varies greatly. Credit unions and loans made on life insurance policies usually require lower rates of interest, while finance companies generally charge higher rates. However, a person who is considered a high risk by a lending institution, that is, a person with a questionable credit history, may not be able to secure a loan with low interest. A person who is not a good credit risk, and many low-income people fall into this category, may only be able to obtain a loan by paying a higher interest. This means that the person will have to pay more to use someone else's money. Again, encourage clients to examine the cost of borrowing money very carefully before signing a contract.

B. Insurance

Some creditors offer credit life insurance with a loan. With credit life insurance, the person who has the loan pays an extra fee which protects his or her survivors from having to assume the loan in the event of his or her death before the loan is repaid.

Credit life insurance is not mandatory. Think very

carefully before taking out a credit life insurance policy with a loan. For example, if a loan which will last three years is taken out by a married man whose wife also holds a good job, she may well be able to take over the payments on the loan should he die. Credit life insurance would probably not be necessary for this couple, and would only add to the cost of the loan. If, however, the couple has three very young children, the woman does not have a job or a profession, and the loan is quite large, credit life insurance might be advisable. The insurance would protect the wife from having to take over the large debt if her husband should die.

Often you are asked to sign a waiver if you do not want credit life insurance. Think carefully before you make your decision. Do not feel pressured either to take the insurance or to sign the waiver. Decide based on your own needs and circumstances.

C. Other Charges

In addition to interest and insurance, lending institutions may charge service charges, investigation fees, loan fees, and other charges. It is important to examine all these charges in determining the total cost of a loan.

D. The Truth in Lending Act

Keeping track of all the charges for credit can be confusing and misleading. Because finance charges can be computed in a variety of ways, it can be difficult for consumers to know what they are actually paying for credit. To help prevent confusion, the federal Truth in Lending Act was put into effect on July 1, 1979.

The Truth in Lending Act has two important disclosure requirements which should help consumers who are applying for credit. The first is that lending institutions must tell a credit applicant what the annual percentage rate, or A.P.R., would be on a loan. The A.P.R. is the finance charge of the loan expressed as a yearly percentage, such as 11% or 15%. Lending institutions must use a uniform method for

expressing the annual cost of borrowing money to their consumers. By knowing the A.P.R., consumers can compare rates from different lending institutions knowing that they have been expressed in a comparable fashion.

The second piece of information which must be disclosed under the Truth in Lending Act is the total dollar cost of the loan. This total cost must include interest, insurance, service charges, and any other charges the lending institution has.

By knowing the A.P.R. and the dollar cost of credit, you can compare sources of credit just as you compare quality of goods. When you need a loan for a car, for example, you can compare the cost of financing the car through the car dealer, through your local bank, and through your credit union. Try to obtain the lowest possible A.P.R. and dollar cost for the loan. Be careful as you apply for loans that you do not sign anything which will commit you to the loan until you have decided which loan to take.

The Truth in Lending Act can be extremely important to low-income consumers. As described in an example above, low weekly or monthly credit payments may add up to very high total prices and interest rates. Talk with your clients about Truth in Lending, and help them understand the importance of comparing credit costs.

VII. SOURCES OF CREDIT

Consumers can apply for credit from a variety of different lending institutions. The source from which you actually obtain credit will depend on the amount of money you need to borrow, your credit history, the purpose of the loan, and, of course, which source will offer you credit.

A. Commercial Banks

The most common source of consumer credit is commercial banks. Commercial banks offer small personal loans, installment loans, and home mortgages. Commercial banks charge interest in the middle range of annual percentage rates. They usually take few credit risks, and frequently require collateral or security.

B. Savings and Loan Associations

Savings and loan associations often offer a slightly lower interest rate than commercial banks. They usually require collateral, and will lend to virtually anyone with a good credit rating. Savings and loan associations offer personal installment loans, home improvement loans, education loans, and savings account loans.

C. Finance Companies

Consumer finance companies usually offer credit fairly easily, and often with no security. They make more small loans than other lending institutions. However, their interest rates are usually higher than those of other lending institutions. Low-income consumers tend to use finance companies as a source of credit precisely because they make obtaining a loan relatively easy. A finance company can offer a way for a person with a bad credit rating to obtain credit, repay the loan, and improve the credit rating. However, because finance companies charge higher than average interest rates, borrowing from a finance company increases the actual total price which the consumer pays for the item.

D. Life Insurance Companies

Life insurance companies can offer loans at a relatively low rate of interest. A person with cash value built up on a life insurance policy can borrow against that value. The actual value of the policy benefit decreases by the amount owed on the loan, should the person die before the loan is repaid. Life insurance companies can offer a relatively easy source of credit for many people. However, many low-income consumers do not have life insurance policies on which they can borrow. And, if a poor person does have a small policy to protect his or her family, borrowing on that policy defeats the original purpose for obtaining the policy.

E. Credit Unions

Credit unions offer personal installment loans at fairly low rates of interest to credit union members. If a low-income consumer is a member of a credit union, this can be an excellent source of low cost consumer credit.

F. Credit Cards

Consumers who hold credit cards can usually obtain cash advances on the credit cards. Using a credit card this way can provide an easy source of credit at a moderate annual percentage rate. However, the actual cost of credit can be very high when a consumer uses a credit card, because there is no pressure to repay the loan. In fact, credit card companies make more money on interest when consumers only repay the minimum required amount each month. Therefore, it is to the company's advantage, and the consumer's disadvantage, for the consumer to repay the loan slowly.

G. Pawnbrokers

Pawnbrokers require security for the loans they offer, and will usually offer only about two-thirds of the market value of the security as a loan. The pawnbroker, unlike other lenders, keeps physical possession of the security until the loan is repaid. Pawnbrokers

charge very high interest rates.

H. Loan Sharks

Loan sharks should not be considered a source of credit. They are only mentioned here because it is possible that in your work with low-income consumers, you could meet someone who has dealt with a loan shark out of desparation. Loan sharks make short loans at illegal interest rates (up to 700% A.P.R.), threatening physical harm or death if the loan is not repaid. A person who is so desparate for money that he or she would consider dealing with a loan shark should go immediately to a consumer credit counseling agency, a social service organization, or a community action program for help instead. Never deal with a loan shark for any reason.

I. Financing a Purchase With the Seller

Many sellers are quite willing to help finance purchases which their customers make. Auto, furniture and appliance dealers in particular frequently secure loans for their customers. Sometimes the seller is able to arrange a loan for a consumer who cannot obtain one elsewhere. But never simply accept the dealer's loan without considering other sources of credit as well. Often a person with a good credit rating can obtain a lower interest rate from a bank, credit union, or savings and loan association than from a dealer.

A particular problem for many low-income consumers who need furniture or appliances is that the neighborhood dealer is the only source of credit available. A typical situation is that a low-income person needs a refrigerator, for example, does not have the transportation (or the credit rating) to compare possible sources of credit, and decides to buy the merchandise from the neighborhood retailer. The local merchant sells the refrigerator at a price higher than what it is actually worth, charging low monthly payments which extend for many years. The total amount the consumer pays for the refrigerator, including the high interest rate, far exceeds its value, and the refrigerator itself does not last as long as the loan repayments.

The best way to help low-income consumers avoid this problematic situation is through education. In your consumer education classes, demonstrate to your clients how high the total cost for merchandise can be when the interest rates are included. If one client has a car, the group members might be able to help one another by trading babysitting for a ride downtown to compare products and sources of credit.

VIII. IF PROBLEMS ARISE

As the use of credit in this country increases, the risk of problems also increases. Billing errors, delinquent payments, and budgeting problems all occur when people borrow money to pay for things. Some of these problems have been dealt with through legislation; others must be handled through common sense and professional counseling. In all cases, difficulties should be handled calmly, logically and directly. Problems with credit should never be ignored.

A. The Fair Credit Billing Act

The Fair Credit Billing Act came into effect in October, 1975 to help correct billing errors that occur on the periodic statements for revolving charge accounts. Errors can include charges which you did not make, charges for something which you did not accept, mistakes in crediting your account, computational errors, or failure to mail your statement to your current address (provided that you gave your creditor your new address at least ten days before the end of the billing period).

Remember, the Fair Credit Billing Act covers only *billing* errors on a bill; it does not cover disagreements over the *quality* of goods or services received. However, the Act does provide that, if you purchase goods or services with your credit card which prove unsatisfactory, you may have the right to use against the credit card company any protection which you would have used against the business. For example, if you purchase faulty merchandise from a store, and you have paid for the item with your bank credit card, if you would have been able to withhold payment from the store because of the defect, you may also be able to withhold payment from the credit card company. In order to take this kind of action, however, you must first try in good faith to return the merchandise to the store, or ask the merchant to correct the problem. You must have made the purchase either in your home state or within one hundred miles of your home address, and the purchase price must have been over fifty dollars.

Creditors are required to give you a written notice describing the procedure for settling a dispute. This process is as follows:

1. You receive a bill which you believe contains an error.

2. You must write to the creditor within sixty days of the date of the bill, giving your name and account number, a description of the error, the dollar amount of the error, and any other pertinent information.

3. The creditor must acknowledge your letter within thirty days of receiving it, and within ninety days of receiving your letter must either correct the error or explain the bill.

4. If the creditor has made a mistake on your bill, you will not have to pay any finance charges on the disputed amount. If there has not been an error, you may have to pay the finance charges which have accumulated during the time of the dispute. If the amount in dispute was incorrect, you must be given the time to pay the correct amount which you are normally given to pay any bill, before any finance charges are computed.

5. If the creditor's explanation of the charges does not satisfy you, you may notify the creditor in writing within ten days of receiving the creditor's statement that you still refuse to pay the disputed amount. At this point, the creditor may report to a credit bureau that you are refusing to pay, but also must tell the credit bureau that you dispute the amount. The creditor must tell you to whom such reports have been made. And, when the dispute is resolved, the creditor must recontact any credit bureaus that were previously notified, stating that the matter has been settled.

6. If the creditor does not follow these rules, the creditor may not collect the first fifty dollars of the disputed amount and finance charges, even if the bill proves to be correct.

If you or a client ever has a dispute with a revolving charge account company, remember, you are obligated to pay the undisputed charges while the

problem is being investigated. Also remember that the Fair Credit Billing Act only applies to open-end credit accounts; it does not apply to installment loans or purchases.

B. The Fair Debt Collection Practices Act

The Fair Debt Collection Practices Act, effective March of 1978, is a federal law which prohibits abusive, deceptive and unfair debt collection practices by debt collectors. The purpose of this law is to see that people are treated fairly by debt collectors. The law does not apply to those firms collecting their own debts.

Under this act, a debt collector may contact you in person, by mail, telephone or telegram. The debt collector may not call at unusual times, or at work if your employer objects. To stop a debt collector from making contact, it is necessary to state in writing that you want no further contact. The debt collector then may *not* make any further contacts.

A debt collector may contact other people, but only to try and locate you. The debt collector may not tell anyone else that the call concerns a debt, usually may not contact any person more than once, and may not put anything on an envelope that identifies the writer as a debt collector.

Within five days of first contacting you, the debt collector must send you a written notice stating the amount of the debt, the name of the creditor, and what you can do if you feel that you do not owe the money. If you send a letter to the debt collector within thirty days after the first contact stating that you do not owe the money, the debt collector must not make any further contact. However, if the debt collector sends written proof of the debt, such as a copy of the bill, then attempts to collect may be resumed.

The Fair Debt Collection Practices Act does not, of course, excuse you from paying any debts which you actually owe. It does protect you from harrassment by debt collectors.

C. Lost or Unsolicited Credit Cards

The federal Truth in Lending Act, described above, also protects consumers against unauthorized use of credit cards. If your credit card is lost or stolen, under the Truth in Lending Act, the maximum amount you would have to pay for charges made by someone else is $50.00. And you are not liable for any unauthorized use of the card after the card issuer has been notified that the card is lost. You are also not responsible for any unauthorized charges made to a credit card which you did not request. The Truth in Lending Act prohibits credit card issuers from sending you a credit card which you did not request. However, you may be sent an unsolicited card which renews your old one.

D. Consumer Credit Counseling Services

Unfortunately, one of the most common problems resulting from the use of credit, particularly for low-income consumers, is overextension. If you are working with a client who is seriously in debt, the first step you may take is to examine the client's budget very carefully. If you see ways of helping the client cut back expenses to meet credit payments, work out a plan with the client to do so. If you are able, approach the client's creditors on the client's behalf to see if there is any way of decreasing monthly payments. Many creditors are quite willing to cooperate as long as they see that the client is making an effort to repay the loan.

However, if it is not possible for you to handle in-depth credit counseling with your clients, familiarize yourself with the Consumer Credit Counseling and Education Services. Currently there are Consumer Credit Counseling Services in Fairfax, Lynchburg, Norfolk, and Richmond, and there are plans to open a similar service in Roanoke soon.

Consumer Credit Counseling Services have been set up nationwide to help educate the public in sound family money management, to reduce the number of personal bankruptcies, to provide free counseling to families who need assistance in managing their finances, and to help families carry out extended repayment of debts.

People who need help with managing their personal finances can arrange to meet with a Consumer Credit Counseling Service. At the meeting, the counselor will review the family's finances in detail, work out a debt management program, and contact the family's creditors. If the creditors agree, the client will make fixed payments to the counseling service, and the service will disburse them on a pre-arranged schedule to the creditors. There is no charge for any of the services of Consumer Credit Counseling and Education Services. It is supported by contributions from merchants, banks, finance companies, and other firms and individuals in its community. With successful debt counseling, people who are experiencing financial problems can repay old debts, avoid bankruptcy, and avoid serious financial problems in the future.

You cannot stress too strongly to your clients that debt problems must never be ignored. Most creditors will be willing to work out a new system of debt-repayment if they know that a consumer is sincerely attempting to repay all debts, particularly if the consumer is working through the Consumer Credit Counseling Service. However, a consumer who never approaches a creditor about potential or actual problems in paying a debt will end up in serious financial trouble.

E. Bankruptcy

As an absolute last resort, you may need to consider declaring bankruptcy, or recommending that a client declare bankruptcy. The benefits of bankruptcy are that you no longer are obligated to pay old debts, with the exception of taxes, alimony, and child support, and that you can get a fresh start on your finances. The disadvantages are that bankruptcy is reported on your credit rating for many years, and is usually considered as the very last step taken by a person who does not have the capability to manage his or her finances in any other way.

To declare bankruptcy, you should obtain legal advice. Your clients can work through Legal Aid. State regulations determine the amount of personal assets and property which a person declaring bankruptcy is allowed to keep. Property and assets which cannot be kept are liquidated and distributed to

creditors. Most remaining debts are simply discharged, although there are some obligations which still must be paid. In other words, after you declare bankruptcy, you are left with few, if any, debts, a minimal amount of personal property, and a bad credit rating.

There may be times when declaring bankruptcy is the only sensible solution to a terrible financial situation. But only consider bankruptcy after all other attempts to work out the problems of serious debt have failed. Consumer Credit Counseling and Education Services can provide extremely valuable assistance in preventing the need for bankruptcy.

IX. A WORD OF CAUTION

As you work with low-income clients, you need to help them understand the pertinent aspects of the information presented in this booklet. If you are working with individuals who are improving their life situations, who will be entering the job market and increasing their incomes, a solid knowledge of credit is extremely important.

However, for some low-income people, establishing and using credit is not a problem. In some low-income neighborhoods, local merchants not only offer credit, they encourage their poorest clientele to charge cheap merchandise at high interest rates. Small monthly payments are made indefinitely to merchants long after the goods have worn out. If a single payment is late, the merchandise may be repossessed immediately. In this kind of situation, obtaining credit is *too easy*. People end up paying unconscionable prices for junk.

If you are working with a client who is overextended financially, serious budget counseling is in order. The first action is to advise the person to avoid taking on any additional credit responsibilities. A person who is seriously in debt *MUST NOT USE CREDIT* until the past debts are paid.

Further discussion of debt counseling is beyond the scope of this booklet. Contact local banks or consumer credit counseling agencies in your area for advice.

It will be important for you to help your clients understand when it is appropriate to use credit, and how to use credit wisely. It will also be important for you to caution your clients against the pitfalls of using credit. If you know a client's financial circumstances well enough, you can help the client determine whether or not using credit is advisable in any particular situation.

X. RELATED MATERIALS AVAILABLE ON A FREE-LOAN BASIS FROM THE OFFICE OF CONSUMER AFFAIRS

TITLE	TOPIC
FILMSTRIPS	
Attack of the Credit Creatures	*credit problems*
BC-AD (Before Credit, After Debt)	*controlling credit spending*
Consumer Credit Series	*basics of using credit*
Name Game	*credit ratings*
You, The User Series: A Little Bit at a Time	*credit*
16mm FILMS	
Money for Sale	*the cost of credit*
The Money Tree	*overspending*
To Your Credit	*Federal Reserve regulations*
Your Credit is Good, Unfortunately	*credit buying traps*
SLIDE-TAPE	
Teaching Consumer Survival Skills: Playing Your Cards Right With Credit	*credit rights*

XI. OTHER SOURCES OF RELATED INFORMATION AND ASSISTANCE

BANKS

BETTER BUSINESS BUREAUS

Norfolk	804 627-5651
Peninsula Area	804 380-8494
Richmond	804 355-7902
Roanoke	703 342-3455
Washington, D.C.	202 393-8000

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
Division of Consumer Affairs, Washington, D.C. 20551.
Handles inquiries about state-chartered banks that are members of the Federal Reserve System.

COMPTROLLER OF THE CURRENCY
Consumer Affairs Division, Washington, D.C. 20219.
Handles inquiries about nationally chartered banks.

CONSUMER AFFAIRS OFFICES

Alexandria Office of Consumer Affairs	703 750-6675
Arlington County Office of Consumer Affairs	703 558-2142
Fairfax County Department of Consumer Affairs	703 691-3214
Newport News Office of Consumer Affairs	804 247-8616
Norfolk Division of Consumer Protection	804 441-2821
Prince William County Office of Consumer Affairs	703 221-4156
Roanoke Consumer Protection Division	703 981-2583
State Offices of Consumer Affairs	
-Northern Virginia Branch Office, Fairfax	703 573-1286
-Richmond Office	804 786-2042
	800 552-9963 (toll-free)
Virginia Beach Consumer Protection Office	804 427-4421

CONSUMER CREDIT COUNSELING SERVICES

of Central Virginia, Fort Early Building, Suite 204, 11 Oakridge Boulevard, Lynchburg, VA 24501 804 847-4447

of Greater Richmond, 6 North 6th Street, Suite 301, Richmond, VA 23219 804 780-9042

of Northern Virginia, 3541 Chain Bridge Road, Suite 3A, Fairfax, VA 22030 703 591-9020

of Tidewater, 222 19th Street W, Norfolk, VA 23517 804 622-7017

CREDIT BUREAUS

FEDERAL DEPOSIT INSURANCE CORPORATION
Office of Bank Consumer Affairs, Washington, D.C. 20429.
Handles inquiries of state-chartered banks that are not members of the Federal Reserve System but are insured by the Federal Deposit Insurance Corporation.

FEDERAL HOME LOAN BANK BOARD
Washington, D.C. 20552.
Handles inquiries about federally chartered or federally insured savings and loan associations.

FEDERAL TRADE COMMISSION
Office of Public Inquiry, 6th and Pennsylvania Avenues NW, Washington, D.C. 20580.
Has pamphlets on fair credit billing, debt collections, equal credit opportunity, and many other consumer topics.

LEGAL AID SOCIETY

MONEY BOOK, by Sylvia Porter
Advice on various financial matters.

NATIONAL CREDIT UNION ADMINISTRATION
Division of Consumer Affairs, Washington, D.C. 20456.
Handles inquiries about federally chartered credit unions.

STATE CORPORATION COMMISSION 800 552-9760 (toll-free)
Bureau of Financial Institutions 804 786-3657